

**INFORMATION REGARDING THE AGREED-UPON
MERGER OF AT&T INC. AND BELL SOUTH CORP.**

**Presented During April 4, 2006, Allowable Ex Parte Communication Briefing
Before the Public Service Commission of South Carolina**

I. INTRODUCTION

On March 4, 2006, AT&T Inc. ("AT&T") and BellSouth Corporation ("BellSouth Corp.") jointly entered into an Agreement and Plan of Merger ("Merger Agreement").¹ A copy of the Merger Agreement is attached hereto as Exhibit B. Because this merger does not fall within the plain terms of section 58-9-310 of the South Carolina Code, it is not a transaction that requires the approval of the Public Service Commission of South Carolina ("the Commission"). Nevertheless, AT&T and BellSouth Corp. submit the following information pursuant to S.C. Code Ann. 58-3-260(c)(6) in order to provide the Commission with a description of the transaction and with an explanation of the benefits it will likely bring to customers in South Carolina and throughout BellSouth's region.

The merger of AT&T and BellSouth Corp. is a holding company transaction. It affects only the corporate parents of entities that provide service in South Carolina and, accordingly, will be transparent and seamless for consumers in the State. In particular, after the merger, BellSouth Telecommunications, Inc. and BellSouth Long Distance, Inc. – the wholly owned subsidiaries of BellSouth Corp. that operate in South Carolina – will provide service in the State just as they did before the transaction. No transfer of assets or certificates held by those operating companies will be required by the merger. No tariffs will need to be amended. Nor will the transaction involve a change in control of any kind as to the AT&T subsidiaries that are

¹ Investors should review the cautionary language regarding forward-looking statements attached as Exhibit A.

certificated in South Carolina – *i.e.*, AT&T Communications of the Southern States, LLC; TC Systems, Inc.; SBC Long Distance, LLC; and SNET America, Inc.

Upon consummation of the merger, this Commission will retain the same regulatory authority over the BellSouth Corp. and AT&T Inc. operating subsidiaries in South Carolina that it possesses today.

II. THE PARTIES

A. AT&T Inc.

AT&T Inc. is a Delaware corporation with headquarters at 175 East Houston Street, San Antonio, Texas. It is a holding company and does not directly provide any services in South Carolina or elsewhere. Its subsidiaries provide domestic and international voice and data communications services to residential, business, and government customers both here in the United States and around the world. AT&T operates sophisticated communications networks that support IP as well as other data and voice traffic. AT&T holds a 60% equity ownership interest in Cingular Wireless (“Cingular”), a nationwide wireless provider. AT&T’s network operations are supported by AT&T Laboratories (“AT&T Labs”), a world-leading source of research and development. More comprehensive information concerning AT&T’s financial status, operations, management, and services is set forth at AT&T’s website. *See* <http://att.sbc.com/gen/landing-pages?pid=5718>.

B. AT&T Subsidiaries Certificated in South Carolina

AT&T Communications of the Southern States, LLC is authorized to operate in South Carolina as a competitive local exchange carrier as of August 7, 1996, pursuant to Order No. 96-494 Docket No. 96-073-C and to provide payphone services as of April 20, 1998, pursuant to Order No. 88-398 issued in Docket No. 85-150-C.

TC Systems, Inc., an indirect, wholly owned subsidiary of AT&T, is authorized to provide local exchange service (including exchange access) and intrastate interexchange telecommunications services in South Carolina as of July 2, 2004, pursuant to Order No. 2004-314 issued in Docket No. 2004-0074-C.

SBC Long Distance, LLC is authorized to operate in South Carolina as a competitive local exchange carrier pursuant to Order No. 2005-437 issued in Docket No. 2003-361-C, and as an interexchange telecommunications carrier pursuant to Order No. 2005-458 issued in Docket No. 97-313-C. By order dated March 7, 2006, the Commission granted SBC Long Distance's request to market services under the name AT&T Long Distance. *See* Order No. 2006-151.

SNET America, Inc. is a Connecticut corporation headquartered at 310 Orange Street, New Haven, Connecticut, and is authorized to provide resold interexchange telecommunications services in South Carolina pursuant to Order No. 96-10 issued in Docket No. 95-1051-C. By order dated May 12, 2004, the Commission granted SNET America, Inc.'s request to market services under the name SBC Long Distance East. *See* Order No. 2004-251.

C. BellSouth Corp.

BellSouth Corp. is a Georgia corporation with its headquarters at 1155 Peachtree Street, N.E., Atlanta, Georgia. BellSouth Corp. is a holding company and does not directly provide any telecommunications services in South Carolina. Through its subsidiaries, BellSouth Corp. is a leading communications service provider in the Southeast, offering voice and data services to residential, business, and government customers. BellSouth Corp. holds a 40% equity ownership interest in Cingular. More comprehensive information concerning BellSouth Corp.'s financial status, operations, management, and services is set forth on BellSouth Corp.'s web site. *See* <http://www.bellsouth.com/investor/>.

D. BellSouth Corp. Subsidiaries Certificated in South Carolina

BellSouth Telecommunications, Inc. is a wholly owned subsidiary of BellSouth Corp. and is authorized to provide local exchange carrier services in South Carolina.

BellSouth Long Distance, Inc. is a wholly owned subsidiary of BellSouth Corp. and is authorized to operate as a reseller of intrastate interexchange telecommunications services as of November 7, 1997, pursuant to Order No. 97-963 issued in Docket No. 97-285-C. It also is authorized to provide local exchange service as of June 18, 2004, pursuant to Order No. 2004-299, issued in Docket No. 2004-45-C.

III. THE PROPOSED MERGER

On March 4, 2006, AT&T and BellSouth Corp. entered into the Merger Agreement. *See* Exhibit B.

The merger is purely a holding company transaction. By the terms of the Merger Agreement, AT&T will purchase all of the issued and outstanding shares of BellSouth Corp. AT&T has created a wholly owned subsidiary, ABC Consolidation Corp. ("ABC"), a Georgia corporation, specifically for the purpose of consummating the transaction. ABC will merge with and into BellSouth Corp., with BellSouth Corp. being the surviving entity. At the time of the merger, shareholders of BellSouth Corp. will exchange their stock for AT&T stock. Following the merger, BellSouth Corp. will become a wholly owned, first-tier subsidiary of AT&T.

Importantly, from the perspective of this Commission, the certificated entities BellSouth Telecommunications, Inc. and BellSouth Long Distance, Inc. will continue to be wholly owned subsidiaries of BellSouth Corp., just as they are today. Similarly, the certificated AT&T entities – AT&T Communications of the Southern States, LLC; TC Systems, Inc.; SBC Long Distance, LLC; and SNET America, Inc. – will continue to be wholly owned subsidiaries of AT&T Inc.

just as they are today. Organizational charts depicting the current and post-merger corporate structures are included as Exhibit C.

After the merger is completed, therefore, the Commission will have the same authority to regulate the intrastate operations of any of the entities certificated by this Commission that are under the direct or indirect control of AT&T or BellSouth Corp. All of these entities will continue to hold the state certificates that they currently hold and will continue to provide service to South Carolina customers pursuant to existing tariffs. There will be no transfer of assets or certificates of those certificated entities in connection with the merger.

IV. THIS INDIRECT TRANSFER OF CONTROL OF FACILITIES IS NOT SUBJECT TO THE MERGER APPROVAL STATUTE

South Carolina law does not require Commission approval of the proposed merger between BellSouth Corp. and AT&T. Under South Carolina law, no “*telephone utility*, without the approval of the Commission after due hearing and compliance with all other existing requirements of the laws of the State in relation thereto, may sell, transfer, lease, consolidate, or *merge* its property, powers, franchises, or privileges or any of them.” S.C. Code Ann. § 58-9-310 (2005) (emphasis added).

South Carolina defines a “telephone utility” as including “persons and corporations, their lessees, assignees, trustees, receivers or other successors in interest *owning or operating* in this State *equipment or facilities* for the transmission of intelligence by telephone for hire, including all things incident thereto and related to the operation of telephones.” *Id.* § 58-9-10(6) (2005) (emphasis added).

Because the proposed merger is at the holding company level, it does not involve the transfer or sale of the assets of any entity that owns or operates telephone equipment or facilities

in South Carolina. The property of all of the South Carolina telephone utilities will remain with those same utilities after the merger of the holding companies is completed.

V. THE MERGER IS IN THE PUBLIC INTEREST

Although this indirect change of control will be transparent to South Carolina consumers in the short term, ultimately the merger will substantially improve the quality and variety of communications services offered to the citizens of South Carolina. This will involve, among other things, more efficient management of Cingular; more vibrant video competition; better service to government customers and strengthened national security; superior service resulting from vertical integration; increased research, development, and innovation; enhanced recovery from natural disasters and other emergencies; and cost savings.

A. More Efficient Management of Cingular

Cingular is a wireless company that is jointly owned by AT&T (60%) and BellSouth (40%), with AT&T and BellSouth sharing equally (50/50) in control of the management of the company. Even though Cingular has been enormously successful, it faces increasing challenges due to its shared control, particularly as it addresses critical technology choices and invests in new services that will blur the line between traditional landline and wireless services. Cingular, AT&T, and BellSouth are each at various stages in the development of IP networks. This merger will enable Cingular to be brought under unified ownership and management, thus permitting the integration of three separate IP networks into a single IP network to carry local and long distance voice, data and wireless traffic, making it possible to offer a dual-mode (wireless/broadband) voice over internet protocol ("VoIP") service, with seamless handoffs between Cingular's wireless network and AT&T WiFi connections.

B. Increased Video Competition

The merger also will allow more rapid deployment of facilities-based competitive video services in South Carolina. AT&T has been engaged in a massive effort to expand its customers' video choices through Project Lightspeed. Project Lightspeed is a more than \$4 billion network upgrade program to transform AT&T's existing 13-state local network into an upgraded fiber network. Project Lightspeed will enable AT&T to offer its customers an advanced suite of voice, video, and data services, including an IP-based video service, or "IPTV." AT&T is currently engaged in a controlled launch of its IPTV service in San Antonio, Texas, and plans to roll out the service to other markets where it currently has local exchange networks. By the first half of 2008, AT&T projects that its IPTV service will be available to approximately 18 million subscribers.²

The merger will permit AT&T to bring similar benefits to South Carolina customers faster than would likely occur absent the merger. BellSouth itself is in the midst of a major deployment of fiber to support higher-speed data services. But, BellSouth has not yet made a decision to commit to deploying video services over that fiber. BellSouth's expanded infrastructure can nevertheless be used to allow AT&T to roll out IPTV more quickly in BellSouth's region (assuming that local franchising authorities do not impose barriers to this new video competition through onerous franchise requirements and delays in issuing construction permits).

Moreover, the combined company will experience significant cost savings in rolling out video. For instance, the companies will not need to develop two sets of ordering, billing,

² AT&T's success in achieving these goals will be largely dependent upon local franchising authorities not creating barriers to such deployment.

customer care, troubleshooting, and other systems to support video. Similarly, in some instances, they will not need to deploy duplicative multi-million dollar pieces of equipment.

The combined company is also likely to be a more attractive partner for video content providers. Importantly, with its larger geographic reach, and large customer base, the combined company should therefore be able to obtain programming on more favorable terms than either company could individually. This is a key benefit of the merger because the cost of programming is a substantial portion of the expense of entering the video market.

Additionally, a new video provider with a large subscriber base will increase the demand for programming, which should increase programming diversity, especially for new, smaller, and/or regional programmers, including foreign language, ethnic, and other niche programming. The combined company, moreover, will be able to take risks on new technologies and invest in research and development relating to IP-enabled services because of the ability to spread costs over a larger subscriber base and realize potentially greater benefits from such expenditures.

C. Better Service to Government Customers and Strengthened National Security

The merger will create a stronger, more efficient U.S.-owned and controlled supplier of critical communications capabilities to the government. The integration of BellSouth's local network with AT&T's backbone network will improve the merged company's ability to respond expeditiously and effectively to evolving needs of governmental customers and enhance communications security and reliability. For instance, the combined company will have a unified end-to-end IP-based network that will have greater reliability, robustness, and resiliency than three separately operated and maintained networks. Similarly, the combined networks will give governmental customers more efficient routing, with fewer network exchange points, reduced "latency" (that is, delay), and a lower rate of packet loss. These enhancements are

particularly important for “real time” services such as high-speed data and critical governmental communications.

In reviewing and approving the recent merger between SBC Communications Inc. and AT&T Corp., the Federal Communications Commission (“FCC”) confirmed that these and other merger efficiencies enhanced national security and were therefore important public interest benefits.³ Because the same kinds of efficiencies that will be created by this merger provide “additional security and routing efficiency for vital and sensitive government communications,” they must be taken “extremely seriously.” *SBC/AT&T Merger Order* ¶ 186; *see id.* ¶ 188 (finding “significant efficiencies” that would “improve the quality of service” to governmental customers).

Security is also easier to manage on a single integrated IP network. There are fewer policies to apply to the routers and fewer routers to which to apply the access control lists. There is also less need for duplicative firewalls and packet cleaning solutions, which makes managing security more efficient.

D. Vertical Integration Will Result in Superior Provision of Services

The vertical integration of the complementary AT&T backbone network and BellSouth’s local networks will, as the FCC recognized in approving the AT&T/SBC merger, provide significant public interest benefits to *all* categories of customers. In the FCC’s words, the integration of these “complementary networks” is in the public interest because “customers will benefit not only from new services, but also from the improvements in performance and reliability resulting from the network integration.” *Id.* ¶ 191.

³ Memorandum Opinion and Order, *SBC Communications Inc. and AT&T Corp. Applications for Approval of Transfer of Control*, 20 FCC Rcd 18290 (2005) (“*SBC/AT&T Merger Order*”).

In approving the SBC/AT&T merger, the FCC recognized that there would be significant efficiencies in combining the complementary operations of the two companies. Indeed, the new AT&T is already significantly ahead of schedule in recognizing those efficiencies and bringing those benefits to its customers. For example, the legacy SBC and the legacy AT&T internet backbones have already been directly connected outside of the United States, and their domestic backbones are scheduled to be connected by the end of April 2006. At that time, traffic that previously was sent to/from legacy SBC and AT&T customers will be exchanged directly, and all such traffic will experience service enhancements and improved security.

The integration of the three IP networks into one also will result in a broader and more rapid deployment of IP-based services. BellSouth Corp. is presently deploying additional fiber optic facilities deeper into its network to enable delivery of IP-based services, including ultra high-speed data services. However, BellSouth Corp. lacks the extensive backbone network necessary to connect subscribers efficiently to national and global networks. AT&T has such facilities, but lacks broad local access in BellSouth's region. Combining these existing assets of AT&T and BellSouth Corp. (as well as integrated deployment of new assets) will create a seamless, high-quality, and cost-effective end-to-end IP network for next-generation applications – and will do so more broadly and more rapidly than would occur absent this transaction. This integrated end-to-end IP network will allow the combined company to bring innovative services to consumers more quickly. It will also allow AT&T to offer the managed services and other products it currently offers to its large business “enterprise” customers to BellSouth's small- and medium-sized business customers.

E. Increased Research, Development, and Innovation

One of the chief public interest benefits of the merger is the increased research and development (“R&D”) that will be made possible by the greater scale of the combined company.

The combined company will be able to draw upon a larger pool of human capital and intellectual property to perform R&D than would the BellSouth entities by themselves. Moreover, as the FCC concluded in approving the AT&T/SBC merger, “by broadening its customer base, the merged entity will have an increased incentive to engage in basic research and development.” *Id.* ¶ 195. “[W]hen a transaction enables the parties to combine their R&D efforts and to spread the cost of those R&D efforts over a more extensive customer base, this could result in new products and services that would not have been introduced absent the proposed transaction.” *Id.* ¶ 193 (internal quotation marks omitted).

Significantly in this regard, after the merger, the BellSouth entities will have the benefit of AT&T Labs, which has long been at the leading edge of technological innovation. Many significant innovations developed by AT&T Labs for AT&T’s enterprise customer base could be applied to residential and business services offered by BellSouth subsidiaries. AT&T Labs’ unrivaled expertise in such areas as IP innovation, text-to-speech engines, and advanced telecommunications network management software could thus be put to the service of BellSouth customers.

F. Enhanced Recovery from Natural Disasters and Other Emergencies

In the wake of last year’s devastating hurricane season, protecting communications networks from natural disasters and responding promptly to restore damaged networks have become national imperatives. To date, BellSouth Corp. and its subsidiaries have devoted enormous resources – more than \$1 billion – in responding to the unprecedented natural disasters of recent years, including Hurricanes Wilma, Katrina, and Rita. Overall, BellSouth Corp. and its subsidiaries have responded to 22 hurricanes over the past 10 years and, as a result, have developed significant expertise in these areas. BellSouth Corp. and its subsidiaries have also

performed at the highest level that could be expected from a company faced with the massive devastation wrought by hurricanes of the likes of Katrina and Rita.

Nonetheless, in cases of large-scale disasters like Katrina and Rita, even individual companies the size of BellSouth Corp. and AT&T are heavily taxed to provide all of the equipment and personnel necessary to restore service. The Regional Bell Operating Companies have historically entered into voluntary mutual aid agreements in which they have provided equipment and loaned technical personnel to one another faced with such massive disruptions of service. While these mutual aid agreements have worked well given their inherent limitations, as a subsidiary of AT&T, BellSouth Corp. and its subsidiaries will have the benefit of being part of a much larger company with increased resources to plan for and recover from natural or man-made disasters and other emergencies.

As an initial matter, the combined management and control over the local exchange operations in both the BellSouth states (including South Carolina) and the states where AT&T has local exchange operations will facilitate the deployment of equipment and personnel required to restore service following a disaster.⁴ Everything will flow faster and more efficiently because management of the combined company will have to deal only with its own network, its own equipment, and its own employees. It will know immediately the characteristics of equipment that was destroyed, whether its warehoused substitute equipment is compatible, the workloads of its technicians, and will have greater latitude under collective bargaining agreements to redeploy them. Moreover, AT&T has unique disaster recovery capabilities and assets that the merger will allow to be used for the benefit of BellSouth and its customers in South Carolina. Before its

⁴ AT&T has wireline incumbent local exchange operations in the following 13 states: Arkansas, California, Connecticut, Illinois, Indiana, Kansas, Michigan, Missouri, Nevada, Ohio, Oklahoma, Texas, and Wisconsin.

recent merger with SBC Communications Inc., AT&T Corp.'s primary focus was on service to large government and enterprise customers, both of which demand service of extraordinary reliability. In response to that demand, AT&T Corp. had invested hundreds of millions of dollars to develop disaster recovery capabilities that can now be used to benefit all classes of wireless and wireline customers in South Carolina.

For instance, AT&T has a fleet of emergency communications vehicles with satellite uplink facilities that can be immediately deployed to establish command centers and communications capabilities, which are the critical first steps in deploying emergency relief and restoring service following a disaster. These facilities accelerated service restoration following the attacks on the World Trade Center, and they will be available to BellSouth in South Carolina following the merger. AT&T also has a fleet of 150 "mobile" central offices that can be deployed whenever a central office has been taken out of service. AT&T is currently developing mobile units with fixed wireless capacity and has about 350 infrastructure trailers that can be used to provide essential power and cooling to central offices in an emergency.

While AT&T has offered BellSouth use of these facilities in the past, the inevitable issues of coordination between separate companies diminished their utility. Moreover, AT&T's proprietary software was of no use to BellSouth. The merger will eliminate such impediments to rapid and effective disaster recovery.

Finally, because the merger will place Cingular under unified ownership and managerial control, Cingular's facilities and capabilities will be more readily available for deployment to supplement AT&T's and BellSouth's landline networks, and facilities in the landline networks can be used by Cingular to restore wireless service in many areas. The combination of control over and access to Cingular's network, AT&T's long-distance network, and BellSouth's

facilities will significantly enhance the opportunity to reroute traffic over the other companies' backbone facilities, switches, and nodes, thereby restoring services quickly after a disaster strikes.

G. The Merger Will Result in Cost Savings

The merger will result in substantial savings in costs of operations that will benefit customers by supporting the combined company's increased research, development, and innovation, thereby making the combined company a more effective competitor. These anticipated cost savings are based on AT&T's prior merger experience. They are expected to result from volume discounts provided by hardware and software suppliers as the combined company's scale and scope of procurement expands, from the elimination of duplicative staff and related administrative expenses, and from efficiencies and reductions in expense associated with consolidation of AT&T's, BellSouth's, and Cingular's IP networks.

VI. THE MERGER HAS NO ADVERSE EFFECTS IN SOUTH CAROLINA

As noted above, the indirect transfer of control created by the Merger Agreement will be transparent to South Carolina consumers. Following the merger, the BellSouth subsidiaries certificated in South Carolina will operate just as they do today. The certificated entities BellSouth Telecommunications, Inc. and BellSouth Long Distance, Inc. will continue to be wholly owned subsidiaries of BellSouth Corp., just as they are today. Moreover, the certificated AT&T entities – AT&T Communications of the Southern States, LLC; TC Systems, Inc.; SBC Long Distance, LLC; and SNET America, Inc. – will continue to be wholly owned subsidiaries of AT&T Inc. After the merger is completed, therefore, the Commission will have the same authority to regulate the intrastate operations of any of the entities certificated by this Commission that are under the direct or indirect control of AT&T or BellSouth Corp.

Furthermore, as it has done in prior mergers involving a holding company with ILEC operating subsidiaries, AT&T intends to retain a significant local presence and incumbent local exchange company operations in each of the BellSouth states, including South Carolina. This commitment is embodied in a March 4, 2006, letter from Edward E. Whitacre Jr., Chairman and Chief Executive Officer of AT&T Inc. to F. Duane Ackerman, Chairman of the Board and Chief Executive Officer, BellSouth Corp.⁵ In that letter, Mr. Whitacre discusses the “value we attach to a high quality workforce, and the experience and skills of the management and employees of BellSouth,” and he indicates that AT&T’s intent is to “broadly utilize the services of the management and employees of BellSouth following the closing of the Merger.” Moreover, Mr. Whitacre indicates that “following the consummation of this merger, AT&T Inc. will . . . maintain Atlanta as AT&T Inc.’s regional telco headquarters and maintain state headquarters in each of BellSouth’s traditional nine-state area.”⁶

VII. OTHER GOVERNMENT FILINGS

AT&T and BellSouth Corp. are taking steps to satisfy the requirements of other governmental entities with respect to the merger. For example, the FCC will undertake a detailed review of the merger. In addition, the Department of Justice will conduct its own review of the competitive aspects of this transaction pursuant to the Hart-Scott-Rodino Antitrust Improvement Act of 1976 and the rules promulgated thereunder.

⁵ See Letter from Edward E. Whitacre Jr., Chairman and Chief Executive Officer, AT&T Inc., to F. Duane Ackerman, Chairman of the Board and Chief Executive Officer, BellSouth Corp., dated March 4, 2006 (attached as Exhibit D).

⁶ *Id.*